THE GRAIN CORPORATION AND THE GUARANTEED WHEAT PRICE

SUMMARY

Events of 1917: the Food Control Act, the guaranteed price, the "fair" price, 698. — The operations of the Grain Corporation in 1917–18, 699. — The guarantee extended to 1919, 704. — The Price Guarantee Act of March 4, 1919, 707. — Crop and prices of 1919, 708. — Expiration of the guarantee; plans for resumption of future trading, 715. — Relative advance in prices of wheat, flour, and bread since 1913, 717. — Financial outcome of the Grain Corporation's activities, 718.

The Food Control Act of August 10, 1917, among other things, authorized the President to fix a reasonable guaranteed price for wheat whenever he should find that an emergency existed "requiring stimulation of the production of wheat." This guaranteed price was specifically intended for the benefit of the "producers of wheat" within the United States, and was to be determined and publicly announced "seasonably and as far in advance of seeding time as practicable." Obviously the guarantee was not applicable to the crop of 1917, which had already been partly harvested.

For the crop of 1918 Congress itself, in the same section of the act which authorized a guaranteed price, prescribed an absolute guarantee of not less than $2.00 per bushel at the principal interior primary markets, based upon No. 1 Northern Spring wheat, or its equivalent, with appropriate differentials for the other grades.

At the time of the passage of this act the wheat price at the principal primary markets of the country was nearer $3.00 per bushel than $2.00 and had fluctuated through a wide range during the spring and summer months of 1917. The immediate problem before the Food Administration, which was set up for the enforcement of the act, was to stabilize the wheat price at some

basis more nearly in conformity with the price named by Congress as the absolute minimum for the crop of 1918. The best way to restore some measure of stability to the chaotic wheat market, whose normally smooth running mechanism was in a state of almost complete breakdown, was to bring the government into the market as a wheat purchaser on some fair buying basis and to induce other buyers to pay the same price.

The thorny task of determining a fair price was entrusted to a commission, appointed by the President, of eleven men, fairly representative of all interests in the community. After prolonged consideration this Fair Price Commission, six of whom represented the farming interests, recommended for the crop of 1917 a price of $2.20 per bushel, basis No. 1 Northern Spring wheat at Chicago. This price recommendation was adopted by the President in the hope that it would "at once stabilize and keep within moderate bounds" the price of wheat for all transactions throughout the crop year and in consequence the prices of flour and bread also.

This expectation was measurably realized by the operations of the Grain Corporation, through which the Food Administration functioned in its relation to the wheat trade.[1] The Grain Corporation was made the sole agency for all government buying and at once entered into a series of voluntary agreements with flour mills and country elevators to maintain the government fair price basis in their own purchases throughout the crop year 1917–18. These buyers of wheat — including some 3000 mills and 14,000 elevators — agreed to pay for wheat of the 1917 crop the government fair price, less freight to terminals and handling charges, and no

[1] The Food Administrator required the grain exchanges to suspend absolutely for the period of the war all operations in future contracts for wheat; speculation in flour contracts was made impossible by forbidding the mills to contract for the delivery of flour more than thirty days ahead. Storage of wheat and flour was also limited to a period of thirty days.

more, so that the farmers everywhere should receive the fair reflection of the government buying basis. Through these trade agreements, which embraced about two-thirds of the elevators and by far the preponderance of the flour milling capacity of the country, as well as through its own purchases running to nearly 30 million bushels of wheat, the Grain Corporation made effective the fair price on the crop of 1917.

The stabilization of the wheat price at $2.20, Chicago basis, resulted in putting more money into the farmers' pockets in 1917–18 than they had ever before received for a wheat crop, for the simple reason that they were not at the mercy of a fluctuating market. The practical assurance of at least the same price for the 1918 crop had already stimulated the planting of 42,301,000 acres of winter wheat in the fall of 1917. The announcement by the President on February 21, 1918, that the fair price of $2.20 per bushel would be continued as the guaranteed minimum for the crop to be harvested in 1918 [1] brought under wheat 22,489,000 acres in the spring wheat states, making a total of 64,790,000 acres, the largest wheat acreage the country had ever seen. The yield of wheat was in excess of 921 million bushels — the largest crop, with a single exception, harvested up to that time in this country.[2]

[1] In June, 1918, the railroads were granted a general 25 per cent advance in freight rates and the guaranteed price in all market centers was, therefore, increased six cents per bushel in order that the freight advance might not fall solely on the farm price.

[2] RELATION BETWEEN SEASON'S WHEAT PRICE AND NEXT SEASON'S PLANTING OF WHEAT

Crop year	Production in million bushels	"Guaranteed" price Chicago basis	Average farm price Dec. 1	Total farm value Dec. 1	Next year's planting in acres.
1913–14	763	....	$0.80	$610,122,000	54,499,000
1914–15	891	....	.99	878,680,000	61,260,000
1915–16	1,012	....	.92	942,303,000	57,054,000
1916–17	640	....	1.60	1,023,765,000	59,573,000
1917–18	637	$2.20	2.01	1,278,112,000	64,790,000
1918–19	921	2.26	2.04	1,881,826,000	73,827,000
1919–20	941	2.26*	2.15	2,024,008,000	58,257,000

* Applicable to the crop harvested in 1919 but not to the crop planted in the fall of 1919 and the spring of 1920.

The obligation to maintain the guaranteed price on this enormous crop imposed a severe burden upon the resources of the Grain Corporation. Originally incorporated with a capitalization of $50,000,000 the Grain Corporation had been able to go through the season of 1917–18 without having to buy more than 28,367,000 bushels of wheat; but with a new crop in excess of 900 million bushels impending, it was seen that larger resources would be imperative. The capital stock of the Grain Corporation was therefore increased to $150,000,000, the total amount appropriated by the Act of August 10, 1917. Even this sum proved to be insufficient and it was necessary to resort to outside borrowing in order to finance the huge purchases of wheat and flour which had to be made in order to redeem the pledge of the guaranteed price. At one time during the crop year these borrowings amounted to the imposing total of $385,000,000. No concern, however great its resources or whatever its prestige because of its official character, could have raised that amount of money in the open market unless its officers and its policies had enjoyed the confidence of the business community in the highest degree.

Without such an agency as the Grain Corporation with its practically unlimited buying power the pressure of the crop of 1918 would undoubtedly have forced the market price below the guaranteed minimum. For the first few weeks of the new season, however, there was no indication of a sagging market. Partly as a result of the return of competitive conditions following the relaxation of the Food Administration rules of 1917–18, and partly in consequence of the continuing agitation in Congress for an increase in the minimum guaranteed price, there was a premium over the guarantee basis in several of the western primary markets during the early

part of July, 1918. In these conditions the marketing of the new wheat crop set in with a rush and within sixty days almost as much wheat had been marketed by the farmers as in the first four months of the preceding year.[1]

The result was what might have been expected. The premiums rapidly disappeared and the price sagged off towards the guaranteed minimum. At Kansas City, for instance, where the premium in July had been ten or fifteen cents a bushel over the guarantee basis, the price quickly adjusted itself to the basic level under the pressure of the large farm marketings. At Chicago not once during the eight months from July, 1918 to February, 1919 did the open market price for No. 1 Northern Spring wheat exceed $2.35 per bushel — only nine cents over the basis at that market; and through practically the whole of that period the large receipts kept the price well down towards the guarantee. Had the buying power of the Grain Corporation been withdrawn from the market, even temporarily, there would unquestionably have resulted a severe slump in the price below the guarantee. The total purchases of wheat during the crop year 1918–19 aggregated 268,316,000 bushels and of flour 25,932,196 barrels, equivalent to about 385 million bushels of wheat in all.

These large purchases were not dictated solely by the

[1] The comparative figures of farm marketings of wheat for the two crop years 1917–18 and 1918–19, compiled from reports of mills and elevators to the Grain Corporation are (in bushels, 000 omitted):

	Marketings by months		Cumulative marketings	
	1917–18	1918–19	1917–18	1918–19
July	87,911*	133,087	87,911*	133,087
August		145,059		278,146
September	90,556	143,827	178,467	421,973
October	103,181	103,886	281,648	525,860
November	78,604	61,782	360,252	587,641
December	46,279	51,406	406,531	637,381
January	29,146	32,549	435,677	669,930
February	18,527	17,742	454,204	687,672
March	17,324	11,901	471,528	699,573
April	17,460	8,489	488,988	708,062
May	12,951	10,297	501,939	718,360
June	9,139	11,021	511,078	729,380

* Impossible to segregate July and August, 1917.

obligation to maintain the guaranteed price. Two other important considerations of national policy played a part. The first of these was the desire to accumulate a considerable stock of wheat in order to prevent a recurrence of the abnormal situation which occurred at the end of the crop year 1917–18, when the country came into the new season with a carry-over of 28 million bushels — a quantity too small for comfort. A second reason for large purchases of wheat and flour grew out of the international situation and the fact that the Allied governments had turned over to the Grain Corporation the entire purchase of cereals and flour in this country for their civilian and military needs. In July, 1918, the Grain Corporation had entered into contracts with the governments of the Allied and associated powers by the terms of which they agreed to take all the wheat and flour the Grain Corporation could supply up to 200 million bushels. Both to protect these commitments and to provide an adequate carry-over for the new year it was necessary to accumulate large stocks. The Grain Corporation was an especially heavy buyer during the autumn months of 1918, which was the very time when the mills were trying to provide for their season's requirements. The wheat bought by the Grain Corporation was practically all withdrawn from the domestic market; many mills, especially those in the Southwest where there had been a partial crop failure, found it necessary to pay high prices for wheat in order to cover their flour sales; some mills in accepting large orders for flour from the Grain Corporation had gone "short" of wheat. This condition was reflected in the price quotations for wheat at the western terminal markets: premiums over the basic price reappeared at Kansas City in November and persisted until the end of the crop year.[1]

[1] Considerable agitation by the mills ensued about midwinter to induce the Grain Corporation to release part of its accumulated stocks of wheat. The necessity to retain

Reference has been made to the agitation in the early part of 1918 for an increase in the minimum guaranteed wheat price over the basis announced by the President in February of that year.[1] In fact a rider to the Agricultural Appropriation bill was adopted by both houses of Congress providing for a minimum price at all country stations, irrespective of location or distance from terminals, of $2.40 per bushel for No. 2 wheat of the crop of 1918. This measure was vetoed by the President July 6, 1918. The agricultural interests were insistent, however, and the President was led, against the advice of the Food Administration and of the officers of the Grain Corporation, to announce the guaranteed price for the crop of 1919 as early as September 2, 1918, at the same basis as the price for the 1918 crop. This step was probably taken in order to forestall possible action by Congress under the pressure of the farming interests in raising the minimum price to some higher figure. That the 1918 figure was high enough is shown by the fact that the acreage sown to wheat under the stimulus of that price was the largest on record.[2] The assurance of the same price for the 1919 crop had the effect of increasing the wheat acreage over 9 million acres more — nearly 14 per cent. The corn acreage, on the other hand, which had decreased over 12 million acres between 1917 and 1918, showed a further decline of over 4 million acres between 1918 and 1919. The acreage planted to

these stocks became less insistent after the signing of the armistice; the cessation of hostilities permitted the Allies to go further afield to supply their needs and also led them to revise their estimated requirements very materially. As a result of the changed situation the Grain Corporation announced that beginning with January 20, 1919, it would sell wheat for milling purposes from its stocks at the primary markets at an advance of 12 cents a bushel over the basic price. This advance was to cover the necessary carrying costs and was increased month by month after January. The holdings of the Grain Corporation at that time were about 143 million bushels of wheat and a quantity of flour equivalent to some 15 million bushels of wheat additional.

1 See above, p. 700. Also see Quarterly Journal of Economics, November, 1918, pp. 36–38.

2 See above, p. 700.

rye, to oats, and to barley, each declined in 1919 as compared with the plantings for 1918. In other words, the large response in wheat acreage, stimulated by the continuance into 1919–20 of a guaranteed price on that product as against a speculative market in other cereals and in live stock, tended to menace properly balanced farm production.

On November 11, 1918 came the armistice and with it the virtual ending of the war and the passing of any urgent necessity to stimulate the production of wheat in this country. Yet the nation's word had been pledged through the joint action of Congress and the President to the maintenance of the guaranteed wheat price up to the end of the crop year, or until June, 1920. There was no other course, consistent with honor, than to redeem the pledge of the guarantee. Hence a bill was enacted during the closing days of the 65th Congress (approved March 4, 1919), making an appropriation of $1,000,-000,000 for maintaining the wheat price guarantee through the crop year 1919–20. It was regarded at that time as almost inevitable that with the release of the supplies accumulated in Australia and the Argentine and the impending record crop to be harvested in the United States, there would be a decline of the "world price" for wheat. Hence in the debates in Congress the unavoidable loss to the Treasury which would follow through having to make up the difference between the market price and the guaranteed price was accepted as one of the necessary costs of the war, regrettable but none the less inevitable.

These apprehensions, it may be added, were not shared by the officers of the Grain Corporation. In his testimony before the House Committee on Agriculture in February, 1919, Mr. Barnes protested against the acceptance of the fallacy that there could be a "world

price" under the international conditions existing in the spring of 1919. With restricted ocean transportation, broken down finance, some markets absolutely closed to our products, and concentrated buying power lodged in the hands of foreign government agencies, it would be folly, he said, to trust to these factors for the determination of a price which should apply to our exportable surplus.[1]

The evolution of the Wheat Price Guarantee Act is instructive. The only really constructive suggestions

[1] The House Committee was considering the bill making provision for the redemption of the guarantee. Mr. Julius H. Barnes, as president of the Grain Corporation was asked to advise the Committee on matters of policy in framing the bill. On the question of a "world price" Mr. Barnes said: "Prior to the war, when the transportation channels of the world were open, when finance was ample to care for international exchange, when buyers and sellers were free to supply their demands, on the one hand, and to offer their products, on the other, without the restraint now present as to transport and finance, there was much to be said as to the soundness of a world price. With all markets open freely for trading the general tendency of price probably fairly reflected the legitimate influences of supply and demand. Minor fluctuations were made by investors and speculators in attempting to anticipate the factors that govern supply and demand, such as crop deterioration in some sections of the world — and a crop is exposed to growing influences somewhere in the world every day in the year — or such factors as a better appreciation of the actual supply or the actual consumption in the world, or the influence on consumption which a higher or a lower level had created; but to deliberately propose that we shall recognize a price made in Liverpool, under present conditions, is national folly. The large markets of the central empires are closed at present, and inability to pay may keep them closed to our surplus or largely restricted.

"The natural consumption of all peoples abroad is affected by tonnage restriction, which will not be entirely overcome for many months or years. That natural consumption is also affected by governmental policies, which again reflect their international finance needs. The desire of certain peoples for wheat products to eat may be curtailed and influenced by a governmental policy that cannot provide at the source of supply the finance to make such purchase as the individual peoples may desire to make. Therefore, I repeat, that there is no world price level, in the sense of fairly and soundly reflecting the natural play between the laws of supply and demand.

"More than that, it is a power we cannot contemplate delegating to any other government that a price level subject to the control of that interested buyer shall be the basis for the marketing of any of our product. For instance, the food needs of the three close allies, of United Kingdom, France, and Italy, for imports of wheat will run at not less than 10,000,000 tons, and perhaps as much as 12,000,000 tons annually. Of this quantity the colonies of the British Empire cannot soundly be expected to furnish over half. Yet that half, being under their influence, can be so used as to establish the price level on which under any definitely committed policy we must furnish the other half, and I protest that America shall not place the power to name the value on its products in the hands of any concentrated buying agency, no matter how friendly. Whatever legislation is passed do not write in the statute any recognition of this method of making prices on our products." Hearings before the Committee on Agriculture, House of Representatives, on Wheat Price Guaranteed by Congress, February 5, 1919, p. 165.

offered the Committee were submitted by Mr. Barnes who recommended that the essential powers to be provided by legislation should include the following:

1. An appropriation of at least $1,000,000,000 in order to place beyond any question the redemption of the guarantee, so that all distrust might be removed and the normal trade and credit facilities of the country be utilized to the fullest possible extent in handling the wheat crop — thus relieving the government of a large part of the actual burden of buying and selling.
2. Authority to borrow in the regular commercial manner and to pledge the credit and property of the agency handling the guarantee. The necessity for this has been shown in the discussion of the 1918–19 operations.
3. Authority to buy and sell wheat *and other cereals* and their products *and other foodstuffs*, at home or abroad, for cash or for credit. This in order that a national policy of combined sales of wheat and other imperatively needed foodstuffs might facilitate the marketing of wheat. The credit inducement might also prove useful.
4. Import and export embargo power over all foodstuffs.
5. Authority to requisition and to build storage facilities.
6. Authority to license dealers, millers, and elevators, and to control trade practices.
7. Authority to control exchange trading.
8. Preferential railroad and steamship service and authority to control the transport flow of all cereals or products into any markets or seaports.

The act as passed conferred most of these powers, but did not authorize control of cereal transportation, or

power to deal in other commodities than wheat and its products, or permit embargo control over such other commodities. Limitations of space forbid detailed analysis of the provisions of the act; the recommendations listed have been set down merely for the purpose of calling attention to the character of the problems involved in the administration of the guarantee. Mr. Barnes refused at the committee hearings in February, 1919, to commit himself to any particular plan for the administration of the guarantee.[1] It was obviously impracticable to base any policies upon conditions which would depend upon the size of a crop a large part of which had at that date not even been planted. To quote his statement: "No policy should be based irretrievably on prospects only."

The wisdom of this attitude was demonstrated by the actual turn of events. With the largest wheat acreage ever planted in this country and glowing prospects for the new crop [2] it seemed to many skilled observers that the crop would be so enormous as to depress the market price below the guarantee and to push the "world price" to so low a point as to impose very substantial losses on the national treasury through the redemption of the guarantee of $2.26 per bushel at the primary markets. The eventual outcome nullified these fears completely. From March to May, 1919, the open market price showed a typical advance such as might have occurred during any season towards the end of the crop

[1] Mr. Barnes, who had been in the national service for nearly two years, was anxious to withdraw from further public service. By order of the President, however, the administration of the Wheat Guarantee Act was, on May 14, vested in him as United States Wheat Director. Mr. Barnes continued to act as president of the Grain Corporation which the President directed to be used as the agency for the administration of the Guarantee Act. For this purpose its capital stock was on July 1, 1919 increased from $150,000,000 to $500,000,000 and its official style changed from Food Administration Grain Corporation to United States Grain Corporation.

[2] Up to June 1, 1919 the Department of Agriculture reported the "condition" of the winter wheat crop (50,489,000 acres) the highest ever known.

year with the exhaustion of old supplies and uncertainty regarding the new crop. At Chicago the price of No. 1 Northern Spring advanced steadily from a point near the guarantee basis in the first week of March to $2.90 per bushel during the first week of May. This advance coincided with the rapid reduction of the Grain Corporation stocks and the melting away of the visible supply which had imposed a check to any tendency to price advance during the winter. By the end of June, when the new crop prospects were at their best, the price declined again to within ten cents of the guarantee and remained at about the same point through July and August.[1] During those two months, however, there was a great shrinkage in the spring wheat crop, due to hot dry weather, and many farmers in the Northwest abandoned all effort to harvest their wheat. The average yield of spring wheat on the 23,338,000 acres harvested was only nine bushels per acre and the total crop only 209 million bushels as against 356 million in 1918. The total outturn of both winter wheat and spring wheat did not exceed 941 million bushels — a large crop, to be sure, but very much less than the amount expected and not greatly over the crop of 1918.

It was soon realized that with a crop so much smaller than what had been predicted, if not exactly hoped for, the problem would be not so much to keep the wheat price up to the guaranteed minimum as to prevent it from getting out of control altogether. The price of No. 1 Northern at Chicago towards the end of September began to advance again and in late December it

[1] A similar situation existed at other markets; in Kansas City, for example, there was an upswing of roughly 50 cents a bushel for No. 2 Hard wheat between the first week in March and the first week in May. Damage to the growing crop of hard winter wheat from hot weather in the Southwest during the last few weeks before harvest prevented such a recession of prices as at Chicago; the closing prices at Kansas City in June were about 30 to 35 cents a bushel above the guarantee basis.

reached a point over $1.00 per bushel above the guarantee. Southwestern hard winter wheats of good quality, also in short supply, reflected the same tendency, tho not to an equal degree. These extraordinary prices for the premium wheats were being paid in spite of the greatest aggregate movement of wheat from the farms which the country had ever known in a similar period.[1] The fact is that much of the large crop of 1919 was of very inferior quality, especially in the spring wheat states, and the abundant yield of the "soft" winter wheats did not avail against the pressure of demand for the hard wheats, both spring and winter, of which there was such a pronounced shortage. Tradition was not easily deflected from the use of hard wheat flour, and even tho the mills were compelled to grind more soft wheat than ever before there was still an insistent demand for hard wheats for mixing purposes. Under these conditions the Grain Corporation did not find it necessary to use any part of the billion dollar appropriation to make good losses which might have accrued to the government through having to buy wheat at the guaranteed price and reselling it at a lower price.

A curious incident occurred during the early part of

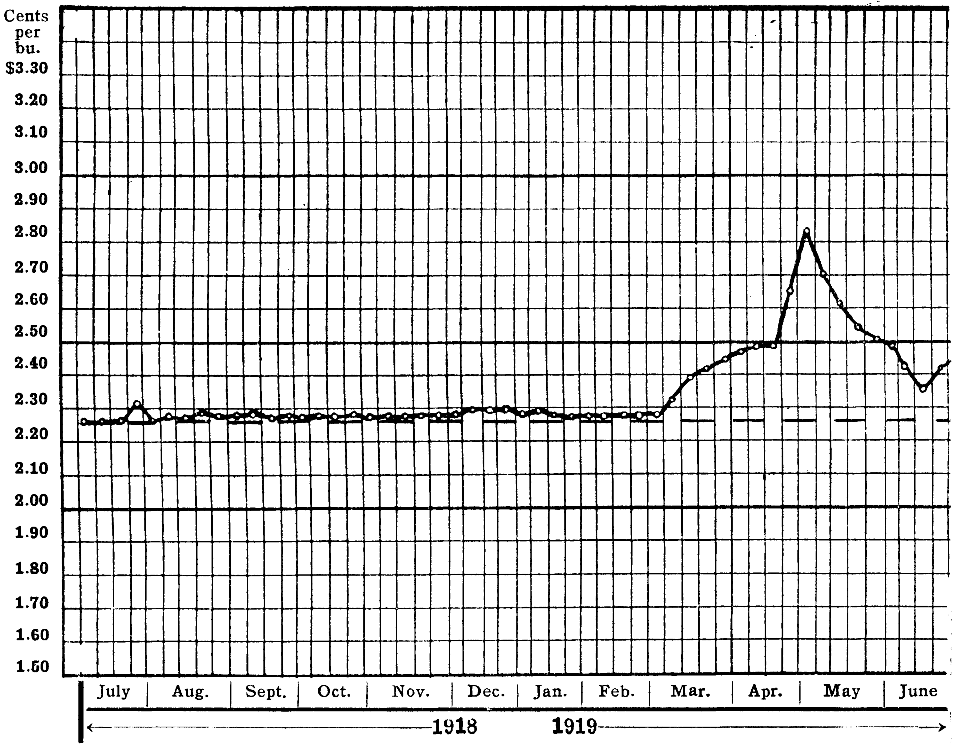
[1] The farm marketings exceeded even the record figures of 1918–19. Especially heavy receipts from farms were recorded in July and August — during the winter wheat harvesting and threshing period. The receipts fell off rapidly after September owing to the shrinkage of the spring wheat crop. The comparative figures for the first eleven months of the crop years 1918–19 and 1919–20 follow:

(In bushels, 000 omitted)

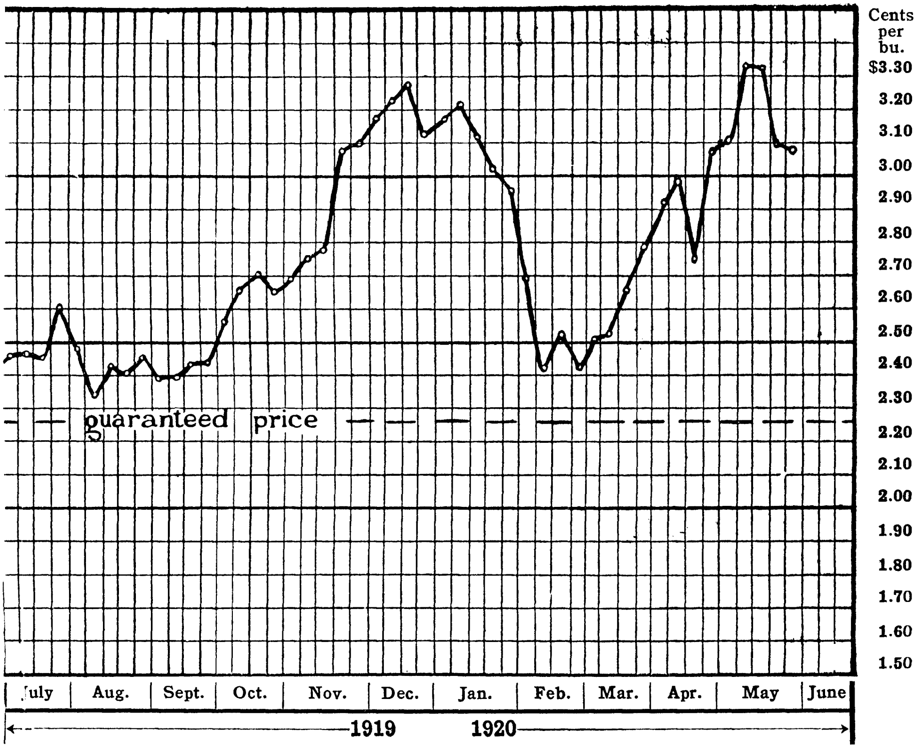
	Marketings by months		Cumulative marketings	
	1918–19	1919–20	1918–19	1919–20
July	133,087	149,036	133,087	149,036
August	145,059	188,818	278,146	337,854
September	143,827	125,029	421,973	462,882
October	103,886	88,802	525,860	551,684
November	61,782	55,683	587,641	607,367
December	51,406	41,581	637,381	648,947
January	32,549	31,727	669,930	680,674
February	17,742	19,292	687,672	699,966
March	11,901	18,522	699,573	718,488
April	8,489	22,089	708,063	740,577
May	10,297	23,157	718,360	763,734

Compiled from reports of mills and elevators to the Grain Corporation.

AVERAGE OF HIGH AND LOW PRICES OF NO. 1 NORTHERN SPRING
1918–19 AND 1919–20. DATA FROM



WHEAT AT CHICAGO ON EACH SATURDAY OF THE CROP YEARS
"THE NORTHWESTERN MILLER"



the crop year 1919–20 which illustrates the complexities of the task of administering the guarantee. Early in August, 1919, the agitation over the high cost of living resulted in an effort, shared by responsible government officials at Washington, to have the Grain Corporation market at a price of \$1.50 per bushel the wheat for which it had paid the guaranteed price of \$2.26. This proposal was seriously put forward as an effort to reduce the cost of living; needless to say, Mr. Barnes was able to secure the President's veto of it. The Grain Corporation did, however, put on the domestic market part of its purchases of straight flour, intended for export, at prices around \$10.00 per barrel in car lots. This was about two dollars per barrel under the prevailing prices at which retailers could buy the widely advertised and popular brands of hard wheat flour. In December, 1919, this selling program was expanded so as to make straight "soft" wheat flour available to the retail trade in appropriate package sizes under the brand "United States Grain Corporation Standard Pure Wheat Flour." An extensive advertising campaign was inaugurated directed to the general consuming public as well as to retailers and bakers. However, the high prices for wheat and flour in the fall and winter of 1919 did not seem to check appreciably the demand of flour consumers for the hard wheat flours. All war restrictions upon consumption, such as the compulsory purchase of substitute flour and limitation upon individual purchase, had long since been removed, and the American home market showed a surprisingly large capacity to absorb wheat flour. The output of the flour mills since the beginning of the crop year 1919–20 had by the end of May exceeded 121 million barrels — nearly a month's production in excess of the figure for the corresponding period of 1918–19. This was not primarily

an export demand; the exports, both of flour and wheat, from the beginning of the crop year were not over two-thirds of the movement for the corresponding period of last year. Not only did the American people want flour in apparently unlimited quantity, but they insisted upon having the high priced patent grades of hard wheat flour. This demand for the low extraction flours, made from those grades of wheat which commanded a premium because of their scarcity, carried prices up to a point approximating the panic prices of the spring and summer of 1917. The Grain Corporation found it an uphill task to educate the public to an appreciation of the wholesomeness of straight flour and the economies to be realized from its use. Some impression was made, of course, and the consuming public was given an opportunity to exercise its preference in the purchase of cheaper grades of flour, if it so desired. Some 763,273 barrels of straight flour were sold up to the end of May, 1920 when the resales to domestic buyers were discontinued.

During the winter of 1919–20 several remarkable price-making factors were in operation. Among them were: (1) totally inadequate domestic transportation; (2) utter collapse of the foreign exchanges and consequent dislocation of commodity movement; (3) severe winter weather, which greatly lowered the promise of the new crop planted in the fall of 1919; (4) political agitation in Congress for the suspension of wheat purchases by the Grain Corporation.

Because of inadequate equipment, bad weather, and labor unrest the railroads found it extraordinarily difficult to handle the volume of traffic offered during the winter of 1919–20. With the greatest of care and energy this could not be otherwise when it is considered that

the roads entered the year 1919 with approximately the same quantity of rolling stock as in 1916.[1]

In January, 1920, conditions became especially aggravated, with the heaviest freight offerings ever known in midwinter coming at a time of exceptional weather severity.[2] The consequent delays in rail transportation from country points and from the terminal elevator stocks to the mills and to the seaboard imposed a severe handicap on the trade and were responsible for artificial shortages of wheat and consequent bidding up of prices, both of wheat and of flour, through the winter months. Such delays in transportation and the local scarcities incident thereto always entail extreme hazard of loss through fluctuations in prices resulting from interference with the smooth movement of traffic from one market to another and from producer to consumer. They invariably result in greater risk and necessitate enlarged trade margins.

The Grain Corporation protected the farmer against a reduction in the country price because of these conditions by entering into an arrangement to pay the country shippers of wheat a weekly storage on their stocks in the absence of car supply, on the distinct agreement that these country shippers in their current purchases from farmers would pay a fair reflection of the guaranteed price at their nearest terminal markets in exactly the same way as if immediate shipment could

[1] Equipment and Performance of Class 1 Roads in 1915 and 1918

	Number of locomotives	Number of freight cars	Tonnage moved
1915	65,099	2,356,338	277,135,000,000 tons
1918	66,010	2,366,658	403,774,000,000 tons

From records of Interstate Commerce Commission and United States Railroad Administration.

[2] The reports of the Railroad Administration for car loadings in January show:

For January,	1918	642,016 cars
" "	1919	726,555 "
" "	1920	816,967 "

be made. This arrangement, together with the assurance that the Grain Corporation stood ready to buy wheat every day and every hour at the guaranteed prices, went far to narrow the range in price fluctuation which characterized the winter of 1919–20.[1]

In spite of the steadying effect of the Grain Corporation's wheat purchases, these price fluctuations covered a much wider range than anything seen since the spring of 1917. There was no such incentive to accumulate large stocks on the crop of 1919 as during the 1918–19 season, and at no time in 1919–20 were the wheat holdings of the Grain Corporation much over 80 million bushels, as against a maximum of 145 million in the preceding season.[2] Early in November, 1919, when the price was beginning to advance rapidly, it was decided to resell part of these stocks to the mills; these resales reduced the Grain Corporation's holdings by some 50 million bushels in about two months. It was also decided to remove the embargo, effective December 15, 1919, upon imports and exports of wheat and flour, which had been in force since the midsummer of 1917. The sale of the Grain Corporation's wheat and the permission to import foreign (chiefly Canadian) wheat and flour had little appreciable effect on prices; prices continued to advance until the second week in January, 1920. Early in February the foreign exchange market broke down utterly and induced a collapse in commodity prices. At almost the same moment [3] the Senate Committee on Agriculture voted to report favorably a bill discontinuing government purchases and sales of grain. This measure was obviously intended to suspend

[1] The Grain Corporation's wheat purchases on the crop of 1919–20 exceeded 138,313,637 bushels. The total amount of storage charges paid the country elevators under the above agreement aggregated $3,418,124.68 for the first eleven months of the crop year, July, 1919 to May, 1920.

[2] See above, p. 703.

[3] February 5, 1920.

the commercial operations of the Grain Corporation, which certain senators from the wheat growing states charged with attempting to depress the price of wheat to the detriment of the farmers. The storm of protest aroused by this proposal prevented its ever being reported by the Committee but the apprehension it caused as to the possible repudiation of the pledge of the Wheat Guarantee Act was a contributing factor in depressing wheat prices over a period of several weeks. About the middle of March the price began to advance again and in May it reached a point above anything known since the panic prices of May, 1917, followed by a slight recession before the government guarantee expired at the end of the month. Thus the period of control closed with an open market price not far from the figure at which wheat had been selling when the necessity for governmental control first became apparent, nearly three years before.[1]

On May 7, 1920, the Wheat Director convened a meeting of the grain and milling trades at Chicago to discuss measures for the resumption of future trading in wheat on the exchanges, which had been suspended since 1917. Representatives of the eight leading grain exchanges decided that trading in futures might safely be resumed July 15, with December as the delivery month; it was expected that the volume of wheat to be moved during the fall months would be large enough to minimize the danger of extreme fluctuation or of price manipulation.

This was practically the last of the steps by which the fetters were removed from the wheat market. Beginning with the conditions imposed by war it had been necessary to restrict commercial enterprise within the narrowest limits in the interest of price stabi-

[1] See Quarterly Journal of Economics, November, 1918, pp. 3-5.

lization and food conservation. Export and import embargo, suspension of future trading, license control,[1] price "fixation" in 1917, and minimum guaranteed prices in 1918 and 1919, the injection of the government into the market as a trader on a commercial basis, with huge purchases of wheat and flour, the positive direction of export business by a government agency — all were parts of the comprehensive scheme of control which it had been necessary to throw about the business of producing and marketing the nation's prime food crop during the disturbed period of war and national adjustment. One by one these restricting influences were removed, until at the expiration of the Wheat Guarantee Act on June 1, 1920 "the market" was again free to take up its course based upon the interplay of thousands of individual judgments unrestrained by official control or direction.

Thus came to an end the largest and, on the whole, probably the most successful instance of government interference with an essential industry due to the necessities of war. Perhaps the most striking feature of the whole enterprise, apart from its magnitude, is the fact that the operations of the Grain Corporation were conducted with such efficiency and smoothness, such freedom from arbitrary interference with the usual economic forces of production and consumption, and with such a studious effort to refrain from substituting judgments for those forces in the formulation of policies, that the individual citizen or trader was scarce aware that a $500,000,000 corporation had ceased to function.

[1] Under the Wheat Guarantee Act the flour and wheat trades were licensed under the Wheat Director during the year 1919–20 as follows:

Elevators	21,490
Millers	10,105
Flour Jobbers and Brokers	17,602
Wheat Brokers and Wholesalers	13,339
Bakers	11,287

On June 1, 1920, all licenses affecting wheat and flour products were terminated by Presidential proclamation.

This huge fund had been administered in a manner to afford the producers of wheat every price protection that could reasonably be asked. That the interests of both farmer and consumer had been fairly conserved is abundantly manifest from the relative advance in the price of wheat to the farmer and of flour and bread to the consuming public. The relative prices at selected significant dates of wheat, flour, and bread, based upon the average price for 1913 in each instance, are: [1]

		Average farm price of wheat	Average retail price of flour	Average retail price of bread
Year	1913....	100	100	100
May	1917....	311	266	168
December	1917....	265	205	166
August	1918....	259	206	177
August	1919....	274	224	180
April	1920....	300	245	200

The total purchases of wheat and flour by the Grain Corporation during the three years of its existence amounted to the equivalent of 705 million bushels of wheat.[2] From September 1, 1917 to May 31, 1920 its total purchases of all kinds aggregated the sum of $3,735,771,861.92 and its sales $3,685,546,644.28. The total operating expenses during this period were only about $\frac{17}{100}$ per cent of sales, and the net profits on completed business about $50,000,000. Of this amount approximately $20,000,000 represents profits arising

[1] The actual (i. e., money) prices from which the above relatives were computed are:

Average for		Average farm price of wheat on 1st of month Per bu.	Average retail price of flour in all cities Per lb.	Average retail price of bread in all cities Per lb.
Year	1913	$ .79	3.3 cents	5.6 cents
May	1917	2.46	8.7	9.6
December	1917	2.09	6.7	9.3
August	1918	2.05	6.8	9.9
August	1919	2.17	7.4	10.1
April	1920	2.34	8.1	11.2

The figures for the farm price of wheat are taken from the Monthly Crop Report, United States Department of Agriculture; the retail prices of flour and bread are from the Monthly Labor Review of the Bureau of Labor Statistics.

[2] Purchases of wheat were 435,001,462 bushels; purchases of flour 59,697,761 barrels.

from sales of foodstuffs, chiefly wheat and flour, to European neutrals during the war at prices above the government buying prices. These neutrals took unconscionably high profits from their shipping business during the war, even upon the transport of supplies destined for the use of our own army abroad, and it was deemed nothing less than right that they should be required to pay prices which would return some of that profit to this country. Also included in the profit item of the Grain Corporation were some $8,000,000 of "excess" profits which the flour mills were required to refund after detailed audits had been made of their accounts; these represented profits in excess of those which they were permitted to take under the regulations of the Food Administration governing the operations of flour mills in 1917–18.[1]

At the end of June, 1920, the Grain Corporation returned $350,000,000 of its capital to the Treasury of the United States. This was the total amount that had been drawn from the Treasury out of the special appropriation of $1,000,000,000 provided by the Wheat Guarantee Act of March 4, 1919. It was expected that the Grain Corporation's remaining capital of $150,000,000 would be returned to the Treasury in full upon the final liquidation of accounts and claims still outstanding on June 30. These accounts included considerable debit balances (nearly $60,000,000) owing by several European governments to whom flour had been sold on credit for relief purposes.[2]

In closing, attention should be called to one other feature of the Grain Corporation's administration of the

[1] It should be pointed out that interest at the normal commercial rate on the national capital employed by the Grain Corporation would have amounted to considerably more than half its total profits.

[2] Congress had, by special act in March, 1920, endorsed the Grain Corporation's plan to sell some five million barrels of flour on credit to relieve starvation in Austria, Poland, Armenia, and other stricken regions.

Wheat Guarantee Act of 1919. This is the series of agreements entered into with millers, flour jobbers, and bakers, by the terms of which the Grain Corporation undertook to protect these trades against a decline in the price of their unsold stocks of wheat or flour below the guarantee basis for a period of 45 days beyond May 31, 1920. The necessity to protect these unsold stocks in the channels of trade from the possibility of a fall in value after the expiration of the Guarantee Act was foreseen as early as the spring of 1919, and was provided for by the terms of these contracts. In the absence of some such assurance millers would have hesitated to commit themselves to the risk of carrying wheat during the closing days of the crop year ending with June, 1920. Jobbers and bakers would have been equally hesitant to stock even their minimum requirements of flour for the same reason. In order, therefore, to prevent such a state of trade uncertainty and hazard, and to promote the even and continuous marketing of wheat and the smooth flow of the nation's essential flour supply, the Grain Corporation entered into these trade agreements with some 4000 mills, about 6700 flour jobbers, and about 4800 bakers. It was largely owing to these agreements that when May 31 arrived, the Guarantee Act expired without even a ripple of excitement.

WILFRED ELDRED.

UNIVERSITY OF VIRGINIA.